

**2Q20 results.** In 2Q20, WIKA posted a lower revenue of IDR 3tn (-42% YoY/-2% QoQ), due to slow realization of infra budget from PUPR and implementation of PSBB. GPM declined to 5.5% (-730bps YoY/-660bps QoQ) due to operational deleverage as burn rate fell from PSBB implementation. Despite lower revenue and margin, WIKA's NPATMI was booked at IDR 151bn (-74% YoY/+52% QoQ) mainly coming from reversal of AR impairment by IDR 666bn, as company shifted strategy that focuses more on projects with better AR collectability. In all, WIKA posted 1H20's revenue/NPATMI at IDR 7,133bn/250bn (-37%/-72% YoY), reaching 44%/27% of FY20 estimate.

**Soft new contract achievement.** In 1H20, WIKA's new contracts (NC) achievement underperformed its peers, came in at IDR3.4tn (-78% YoY), accounting for only 16% of our estimates, partly due to delayed NC tender. However, we believe in 2H20's NC will improve as company currently participating in tender with total amount of IDR 15tn, in which management is optimistic that they will secure at least 30% of those projects. In addition, PUPR will begin 4 toll roads tender in 3Q20 namely: 1)Kamal-Teluk Naga-Rajeg (IDR 23tn), 2)Semanan-Balaraja (IDR 16tn), 3) South Sentul-West Karawang (IDR 15tn), and 4)Patimban (IDR 8tn) and we expect WIKA will also gain new contracts in those toll roads project.

**Revising our forecast.** Due to soft 1H20 performance, WIKA slashed their NC target in FY20 to IDR 21tn (vs. IDR 66tn from initial target). Inline with the management, we also revise down our FY20 estimates for NC/revenue/NPATMI to IDR 21tn/16tn/199bn (-5%/-1%/-79%). Going forward in 2H20, though GPM should improve on the back of higher burn rate, we expect NPM to fall, dragged down by rising finance cost as well as AR impairment due to more conservative approach of AR collectability from the management. Nonetheless, we believe WIKA can quickly recover in FY21, supported by company's large order book that includes many strategic projects that will be the main focus for the government to boost economy growth. (HSR Jakarta-Bandung and Serang-Panimbang toll roads)

**We maintain our BUY rating on PT Wijaya Karya Tbk (WIKI) with unchanged target price of IDR 1,670.** Our TP represents 27% potential upside, implying 8.6x FY21F PE. Given WIKA's large orderbook, strong balance sheet, and undermanding valuation (7.5x PE, -0.9 SD from its 3-years average PE), we see attractive risk/reward for the stock. Downside risks to our call are: delayed NC tender and bigger-than-expected AR impairment losses.

Highlights (IDR Bn)	2018	2019	2020E	2021F	2022F
Revenue	31,158	27,213	15,927	26,414	29,922
% growth	19.0%	-12.7%	-41.5%	65.8%	13.3%
Gross Profit	3,605	3,480	1,539	3,109	3,590
Net Profit	1,730	2,285	199	1,573	1,923
% growth	43.9%	32.1%	-91.3%	689.6%	22.3%
Gross Margin (%)	11.6%	12.8%	9.7%	11.8%	12.0%
Net Margin (%)	5.6%	8.4%	1.3%	6.0%	6.4%
Return on Equity (%)	12.6%	14.6%	1.2%	9.1%	10.3%
Return on Assets (%)	3.3%	3.8%	0.3%	2.8%	2.9%
EPS (IDR)	193	255	22	175	214

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Sector	Construction
Bloomberg Ticker	WIKI JI
Market Cap. (IDR tn)	11.5
Share Out./Float (mn)	8,970/3.134
Current Price	1,285
FY20F Target Price	1,670
Upside	27%

**Share Price Performance**

52W High (8/27/2019)	2,330
52W Low (3/26/2020)	675
52W Beta	2.2
YTD Change	-35.4%

**Relative Valuations**

Trailing P/E	7.2x
Forward P/E	11.9x
P/BV	0.9x

## WIKA 2Q20 Earnings Summary

Highlights (IDR B	2Q19	1Q20	2Q20	QoQ	YoY	6M19	6M20	YoY	%DH	%Cons
Revenue	4,859	4,199	2,934	-30.1%	-39.6%	11,364	7,133	-37.2%	44.2%	32.4%
Cost of Revenue	(4,237)	(3,690)	(2,772)	-24.9%	-34.6%	(10,026)	(6,462)	-35.5%		
Gross Profit	623	509	161	-68.3%	-74.1%	1,337	670	-49.9%		
Operating Profit	357	314	(75)	N/A	N/A	899	239	-73.4%		
NPATMI	594	99	151	52.4%	-74.5%	891	250	-71.9%	26.6%	23.3%
Gross Margin	12.8%	12.1%	5.5%			11.8%	9.4%			
Operating Margin	7.4%	7.5%	N/A			7.9%	3.3%			
Net Profit Margin	12.2%	2.4%	5.2%			7.8%	3.5%			

Source: Company Data, Sinarmas Investment Research

## Earnings Changes

(IDR Bn)	Previous		New		%Change	
	2020E	2021F	2020E	2021F	2020E	2021F
Revenue	16,133	28,190	15,927	26,414	-1.3%	-6.3%
Gross Profit	1,737	3,546	1,539	3,109	-11.4%	-12.3%
EBIT	1,746	3,038	1,015	2,914	-41.9%	-4.1%
EBITDA	2,279	3,649	1,543	3,516	-32.3%	-3.6%
Net Income	941	1,740	199	1,573	-78.8%	-9.6%

Source: Company Data, Sinarmas Investment Research

## Key Assumptions Changes

(IDR Bn)	Previous		New		%Change	
	2020E	2021F	2020E	2021F	2020E	2021F
New Contract	21,321	32,134	20,306	30,458	-4.8%	-5.2%

Source: Company Data, Sinarmas Investment Research

<b>Income Statement (IDR Bn)</b>	<b>2018</b>	<b>2019</b>	<b>2020E</b>	<b>2021F</b>	<b>2022F</b>
<b>Revenue</b>	31,158	27,213	15,927	26,414	29,922
% growth	19.0%	-12.7%	-41.5%	65.8%	13.3%
Cost of Revenue	(27,553)	(23,733)	(14,388)	(23,304)	(26,332)
% growth	18.3%	-13.9%	-39.4%	62.0%	13.0%
Gross Profit	3,605	3,480	1,539	3,109	3,590
Operating Expense	(786)	(931)	(857)	(866)	(995)
Other Income (Expense)	615	1,302	333	670	830
<b>EBIT</b>	<b>3,434</b>	<b>3,852</b>	<b>1,015</b>	<b>2,914</b>	<b>3,425</b>
<b>EBITDA</b>	<b>3,242</b>	<b>4,346</b>	<b>1,543</b>	<b>3,516</b>	<b>4,111</b>
Net Financing	(349)	(367)	(407)	(324)	(322)
Profit from JV	533	939	557	923	1,025
<b>PBT</b>	<b>3,086</b>	<b>3,485</b>	<b>608</b>	<b>2,589</b>	<b>3,103</b>
Tax	(1,012)	(864)	(380)	(785)	(898)
Non Controlling Interest	343	336	29	231	283
<b>Net Profit for the Year</b>	<b>1,730</b>	<b>2,285</b>	<b>199</b>	<b>1,573</b>	<b>1,923</b>
% growth	43.9%	32.1%	-91.3%	689.6%	22.3%

<b>Balance Sheet (IDR Bn)</b>	<b>2018</b>	<b>2019</b>	<b>2020E</b>	<b>2021F</b>	<b>2022F</b>
Cash and Cash Equivalent	13,974	10,347	7,970	7,793	9,657
Receivables	5,351	4,462	3,021	3,905	4,275
Other Current Assets	24,231	27,526	21,773	28,189	31,930
<b>Total Current Assets</b>	<b>43,555</b>	<b>42,335</b>	<b>32,764</b>	<b>39,887</b>	<b>45,862</b>
Fixed Assets	4,676	5,155	5,638	6,190	6,785
Intangible Assets	714	2,394	2,394	2,394	2,394
Other Non Current Assets	10,284	12,226	10,935	12,739	14,312
<b>Total Assets</b>	<b>59,230</b>	<b>62,110</b>	<b>51,731</b>	<b>61,210</b>	<b>69,353</b>
Total Payables	13,183	12,762	7,737	12,532	14,160
Short-Term Loans	4,497	6,188	10,199	7,780	8,553
Other Current Liabilities	10,572	11,399	7,022	11,132	12,548
<b>Total Current Liabilities</b>	<b>28,252</b>	<b>30,349</b>	<b>24,959</b>	<b>31,444</b>	<b>35,262</b>
Long-Term Loans	9,092	8,892	5,130	5,305	7,383
Other Non Current Liabilities	4,671	3,653	2,239	3,568	3,995
<b>Total Liabilities</b>	<b>42,015</b>	<b>42,895</b>	<b>32,328</b>	<b>40,317</b>	<b>46,640</b>
Share & APIC	7,453	7,453	7,453	7,453	7,453
Retained Earnings	5,480	7,261	7,420	8,679	10,217
Non Controlling Interest	2,412	2,713	2,742	2,974	3,256
Other Components of Equity	1,871	1,788	1,788	1,788	1,788
<b>Total Equity</b>	<b>14,804</b>	<b>16,502</b>	<b>16,661</b>	<b>17,920</b>	<b>19,458</b>
<b>Total Equity &amp; Liabilities</b>	<b>59,230</b>	<b>62,110</b>	<b>51,731</b>	<b>61,210</b>	<b>69,353</b>

Source: Company Data, Sinarmas Investment Research

Cash Flow (IDR Bn)	2018	2019	2020E	2021F	2022F
<b>Net Income</b>	<b>1,730</b>	<b>2,285</b>	<b>199</b>	<b>1,573</b>	<b>1,923</b>
Depreciation & Amortization	(192)	494	528	603	686
Change in Working Capital	1,151	1,975	2,208	-1,605	1,066
<b>Cash Flow from Operating</b>	<b>388</b>	<b>804</b>	<b>-1,481</b>	<b>3,780</b>	<b>1,542</b>
Change in Fixed Assets	(552)	(973)	(1,012)	(1,154)	(1,281)
Change in Intangible Assets	(575)	(1,680)	-	-	-
Change in Long Term Assets	(4,727)	(5,295)	1,291	(1,804)	(1,573)
Change in Long Term Liabilities	1,608	(1,049)	(1,415)	1,330	426
<b>Cash Flow from Investing</b>	<b>(3,095)</b>	<b>(5,637)</b>	<b>(1,136)</b>	<b>(1,628)</b>	<b>(2,428)</b>
Change in Share & APIC	-	-	-	-	-
Change in Short Term Loans/Bonds	(2,410)	1,691	4,011	(2,419)	773
Change in Long Term Loans/Bonds	6,984	(200)	(3,762)	174	2,078
Dividends Paid	254	504	40	315	385
Others	1,107	208	29	231	283
<b>Cash Flow from Financing</b>	<b>5,427</b>	<b>1,206</b>	<b>239</b>	<b>(2,328)</b>	<b>2,750</b>
Change in Cash	2,720	(3,627)	(2,377)	(177)	1,864
Beginning Cash	11,254	13,974	10,347	7,970	7,793
<b>Ending Cash</b>	<b>13,974</b>	<b>10,347</b>	<b>7,970</b>	<b>7,793</b>	<b>9,657</b>

Financial Ratio	2018	2019	2020E	2021F	2022F
<b>Profitability</b>					
ROE	12.6%	14.6%	1.2%	9.1%	10.3%
ROA	3.3%	3.8%	0.3%	2.8%	2.9%
Gross Margin	11.6%	12.8%	9.7%	11.8%	12.0%
Operating Margin	9.0%	9.4%	4.3%	8.5%	8.7%
EBITDA Margin	10.4%	16.0%	9.7%	13.3%	13.7%
Net Profit Margin	5.6%	8.4%	1.3%	6.0%	6.4%
<b>Liquidity &amp; Solvency</b>					
Debt to Equity	0.8x	0.8x	0.8x	0.7x	0.8x
Net Gearing	N/A	0.3x	0.4x	0.3x	0.3x
Debt to Assets	0.3x	0.3x	0.3x	0.3x	0.3x
<b>Valuation</b>					
Price to Earnings (PE)	8.7x	6.6x	75.2x	9.6x	7.8x
Price to Book (PBV)	1.1x	1.0x	0.9x	0.9x	0.8x

Source: Company Data, Sinarmas Investment Research

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